

**THE UNITED STATES AND KOREA
CHARTING A COURSE FOR A RENEWED PACIFIC AGE**

**Ambassador Richard Fisher
Deputy U.S. Trade Representative**

U.S.-Korea 21st-Century Council

October 19, 1999

I appreciate being here today, especially seeing my friend and mentor of some 20 years, Fred Bergsten. Fred and I go back to the Carter Administration. In fact, my first trip to Korea was in 1979 with President Carter, working alongside of Fred. Fred is a Very Smart Man. I know that because he is so smart, he had me managing the Institute's money when I ran Value Partners before coming back to government two years ago!

A few weeks ago, I was able to say the same thing about Ray Vernon in a speech at Harvard's Kennedy School. I proudly told the audience one of my pleasures in life had been to manage Ray's money for over a decade. At the time, Ray was dying of cancer; he just passed away two weeks ago, leaving a hole in the hearts of those of us who loved him and had depended on his wisdom to guide us in developing trade policy. Sick as he was at the time, his wit remained rapier sharp. He yelled out, "That's right. Fisher managed my money for a dozen years. Which is why I am still working at 85!"

Thank you for inviting me to participate in this annual meeting of the U.S.-Korea Twenty-First Century Council. I am honored to be speaking today, along with my esteemed counterpart Ambassador Chung.

Before I begin my remarks on the U.S.-Korea economic relationship, I would like to respond to the discussion this morning about the possibility of a free trade agreement between the United States and Korea. This is an interesting idea. In fact, the negotiations we have had on a Bilateral Investment Treaty have seemed at times like negotiations on an investment chapter in an FTA. That said, the only way to set the stage for an FTA between our two countries would be to resolve advance significantly our major trade issues, about which I will speak in more detail in a moment.

Let me put this morning's discussion in context. Geography, personal ties, and economic interests combine to make the U.S. relationship with Korea among the most important we have anywhere in the world.

Our relationship, of course, began as a military alliance, premised on a shared view of geopolitics in general, and the military situation on the peninsula in particular. This alliance remains strong today, as our colleagues in the U.S. and Korean political and defense agencies address the economic decline and uncertain political future of North Korea.

Over the decades since the war, however, we have developed cultural and personal ties that, upon reflection, are astonishing – when you consider how different our nations were in 1950; and much more so when you realize that when we first met, Korea was a conservative Confucian monarchy with 2000 years of history, and the United States a new nation recovering from Civil War, just short of its 90th birthday.

Today, we share political sympathies as two of the leading Pacific democracies. Hundreds of thousands of Americans and Koreans cross the Pacific for business, tourism, and family visits each year. More than a million Americans trace their families to Korea. Chan Ho Park plays for the Dodgers; the animation for “The Simpsons” is done in Seoul; Park Wan-so’s stories are on sale in our bookstores; and if you walked by the White House last month, you saw a Daewoo combine on South Lawn preparing the grounds for Labor Day.

THE ECONOMIC RELATIONSHIP

As Korea has grown into an industrial giant, our economic ties have grown to become one of the largest trade and investment relationships anywhere in the world.

For a Deputy USTR, the Korean portfolio is one of the most important, complex, occasionally frustrating, but always fascinating and rewarding:

- Korea is our sixth largest export market; our fourth largest market for agricultural products; and nearly twice as big an export market as China.
- At over \$40 billion a year in two-way trade, our trade relationship with Korea is larger than that with France, or that with Brazil, or the Netherlands. Every single day, more than \$200 million worth of goods and services cross paths on their way by air, sea and cyberspace from Los Angeles to Pusan and Washington to Seoul.
- The U.S. is Korea’s largest source of imports, its largest foreign investor, and the largest recipient of Korean foreign investment.

At the same time, our trade negotiations are some of the most demanding and difficult anywhere in the world. Americans have found Korean markets in many fields opaque and difficult to work in, both for exporters and investors.

Each year we publish a “National Trade Estimate” report that details our trade policy agenda with our major trading partners. Our section on Korea reviews tariffs, quantitative restrictions, import licensing, import clearance policies in agriculture, technical standards, labeling requirements, government procurement, motor vehicle registration, cosmetics testing and quite a bit more. At 20 pages long, it is shorter only than our reviews of Japan and the European Union – showing Korea’s importance to us as a trading partner, and also the depth and complexity of the trade problems we encounter in the Korean market.

THE FINANCIAL CRISIS

The challenges evident in this report arise, first of all, from the importance of Korea as a trading partner. But they also arise from the path Korea took to become an industrial power: a series of industrial policies involving import restrictions, subsidies, and export promotion, in which the government became a silent partner of most leading Korean businesses.

It is fair to say that this proved to be a highly effective method of creating industrial growth. But it has seemed less effective in today's technologically more advanced world. In the modern world economy, protection and subsidies are often weaknesses rather than sources of strength; a Maginot Line, rather than a fortress.

The debate over the cause of the financial crisis, and all the extraordinary suffering it brought to Korea, will go on for many years. But among its causes were clearly the policies which had brought a long era of growth, but also left most of Korea's leading companies overextended and deeply in debt.

There are some who call the crisis a "blessing in disguise," or words to that effect. I refrain from doing so: it was an experience which brought misery to millions of Korean families, and was one of a series of inter-linked events that brought the world economy as close to collapse as at any point in my lifetime. But that is past, not future. In its aftermath, we have an important opportunity for the reforms which can make a future crisis less likely.

Korea, one must say, has responded with remarkable – although perhaps not surprising – determination and courage to this traumatizing event. The nationwide self-help campaign of the winter of 1997 saw donations of gold from nearly twenty million of South Korea's forty-two million people – jewelry, family heirlooms, savings that parents had hoped to pass on to their children. And under President Kim, the government has built upon this foundation of patriotism and self-sacrifice a set of reforms that I believe will take Korea into a new generation of economic growth and technological progress.

REFORM AND RECOVERY

The most advanced economies today draw strength from interconnections, rather than walls; speed, rather than deliberative action; and diffusion of power to players other than states and governments.

President Kim clearly understands this. During his Administration, the course of Korean economic policy has changed. He has passed 57 economic reform measures through the National Assembly. While others in his region – including Japan – clung for too long to failed models for economic development and growth, President Kim and his team have had the grasp of public opinion and the political courage to leave the past behind.

The older Korean model for economic development relied on the government choosing the winners; more and more, President Kim's Korea relies on the market. Along with the market, he has embraced freer trade and investment and increasingly open competition. This has helped Korea return more quickly than any other nation to growth; and it has carried over from finance and administrative policies to trade.

THE TRADE RECORD

In the past two years, Minister Han Duck-soo and I have been down in the trenches, working out the details of some exceptionally complex and politically charged issues. He is a good negotiator of Korea's interest and a most worthy counterpart. He also fully recognizes the advantage of an open economy for the living standards of Korean families, and for the competitiveness and technological progress of Korean industry.

This is evident in the progress we have made in a number of politically charged trade issues over the past year. A few specific examples:

- Implementation of our year-old Memorandum of Understanding on motor vehicles has been smooth. The Korean government has worked to reform auto financing, reduce discriminatory taxes on foreign cars, and streamline certification. A major test of progress will take place next May, when an auto import show will take place with the sponsorship of four Korean Ministries. The objective is to have an open and fully-competitive auto market in Korea, something which has thus far eluded us.
- This year, the Korean government eliminated a regulatory barrier to the introduction of new drugs into the Korean market (specifically, a requirement that clinical trials in other countries be finished before they could even begin in Korea); committed to adopting international guidelines on the acceptance of foreign clinical test data, which should help in the approval process of new drugs; and set up a task force to review its medical insurance reimbursement system, which foreign companies have found to be problematic. We are seeking to revamp a system to encourage rather than stifle the development of research-based drugs.
- We have moved ahead on our negotiations towards a Bilateral Investment Treaty, although we continue to have some differences on a number of important sectors.
- The Korean Parliament has recommended a bill to place its liquor tax system in compliance with WTO rules, as required by a recent panel ruling. This is a first step in what we hope will be increased market access for foreign distilled spirits.
- The Korean government has shown a willingness to use the media to increase public understanding and acceptance of open markets and free trade, through opinion pieces in newspapers, advertisements and so forth, a sharp departure from past practice. This

action stems, at least in part, from the provisions in the 1998 MOU on motor vehicle trade on improving consumer perception of imports.

One area where we are still experiencing difficulty, however, is in steel. The U.S. response to the steel crisis has been measured and WTO consistent. We expect other countries to take actions to help alleviate friction in this area. While we have made progress in reducing overall imports from their 1998 levels, we remain extremely concerned about steel imports from Korea, which remains the single largest source of continued surges.

We remain concerned about the sale of Hanbo and the full privatization of POSCO. The Korean government has an obligation to ensure that the sale of Hanbo is transparent and market-based. POSCO's privatization must be complete and we expect that any deal between Hanbo's creditors and potential purchasers will not include conditions regarding employment or forced requirements on production. And, as with POSCO, there must be no electricity discounts, export credit financing, export industry facility loans, or loans from the National Agricultural Cooperation Federation if, as Minister Han promises, the Kim government is to be "completely out of the business of steel." This is critical to Korean credibility as a true reformer. The same is true for *chaebol* reform, and other corporate restructuring.

THE U.S. AND KOREA IN THE TRADING SYSTEM

There is a danger, for example, in handling the thorny Daewoo matter, that in deciding who should pay what and to whom, Korean policymakers will send messages to the market which counteract the good signals coming from President Kim's reform agenda, or from specific successes like the Bond Stabilization Fund's recent successful management of a sharp decline in corporate bond yields.

But taken as a whole, the direction of Korean reform is correct and is getting results. And this era of reform has opened remarkable possibilities for us to work together, not only to strengthen and improve our own trade relationship, but to help develop a more open and prosperous Pacific region; and a better world trading system.

I recall someone once referring to Korea as "a shrimp among the whales" – a small, vulnerable country at the point where Japan, China and Russia meet. Today, I think, a better metaphor might be that Korea is a "dolphin among the whales" – an intelligent, adaptable leader that can lead the way to the calm water beyond the reefs.

You can see that happening today. In APEC, we are working with our Korean colleagues to revitalize the Pacific economy, developing measures on business facilitation, electronic commerce, and trade liberalization. The result, ultimately, can be a renewed Pacific age in which markets rather than governments drive the direction, pace, and choices in commerce.

Within APEC, one thing is very noticeable. At the Ministerial level and at the Leaders

level, the ministers and leaders cock an interested ear when Minister Han and President Kim speak. There is a new found respect for Korea at APEC based on the Kim Administration's willingness to take the bull by the horns and "do" reform, rather than just talk about it. In Texas, when we see that someone is all talk and no action, we say they are "all hat and no cattle." Today in APEC and regionally, Korea is viewed as driving a significant herd of market reforms, deserving of other's respect and cooperation.

This cooperative work goes beyond the Pacific region. A signal element of this year's APEC meeting in New Zealand was its commitment to an active, reformist agenda in the world trading system. In their September declaration, the APEC Ministers endorsed the elimination of export subsidies, an initiative on transparency in government procurement, industrial market access negotiations in the next round, and continued tariff-free trade in electronic commerce.

We are now just over a month away from the WTO's Ministerial Conference in Seattle – the largest and certainly the most widely discussed trade event ever held in America, one I hope many of our Korean friends here will attend. This event will launch a new, worldwide Round of international trade negotiations in which we have shared interests and the potential to reach goals that will help us both.

Transparency in Government Procurement

As we approach the Ministerial, Korea has already taken the lead on an initiative of exceptional importance not only for creation of practical trade opportunities, but the principles of open, honest and accountable government. President Clinton, last Wednesday, noted that:

"There's one special aim we should achieve at Seattle: we should follow the lead of Korea and Hungary, and work together on an agreement to promote transparent procedures and discourage corruption in the \$3.1 trillion government procurement market worldwide."

As the President noted, we applaud Korea's leadership on this issue, and we're proud of our partnership in cosponsoring the initiative in Geneva. Its completion would send a powerful message to the markets and help countries move toward the type of reforms Korea has adopted, building greater confidence in governments and protecting taxpayers from exploitation. It will help to promote worldwide the core principles of transparency, accountability, honesty and fair play at the heart of Korea's economic reforms.

In the Round

Implementation of existing WTO agreements is the foundation on which the new Round rests. Many of our bilateral issues with Korea -- for example on beef (speaking of "all hat and no cattle") and other agricultural products, airport procurement, and pharmaceuticals -- involve Korea's commitments under existing WTO Agreements. If you are committed to do something,

the best way to engender confidence is to just do it. If Korea were to take action now to resolve these issues, it would strengthen its bilateral economic relationship with the United States, and at the same time, send a clear signal that the Korean government is committed to full implementation of its WTO obligations.

As to the Round itself, these negotiations can open up markets in areas of great importance to Korea as well as America. We may not agree on all issues, but we should resolve our differences as much as possible, and cooperate closely on the issues on which we share interests.

The Accelerated Tariff Liberalization initiative begun in APEC is one especially important area in which we have shared interests. Its completion will offer new opportunities to Korean industry in such sectors as chemicals, environmental technologies, scientific and medical instruments, and energy equipment. Furthermore, the ATL initiative will reduce the cost to Korea of purchasing world-class equipment in such areas as energy and environmental technology; anyone who has spent a morning climbing up Namsan knows not only that Seoul has one of the world's most beautiful settings, but that its air has gotten more than a little dirty over the years.

Likewise, we share interests in a more open world for services trade – finance, telecommunications, audiovisual and others – both to create export opportunities and to promote competition and technological advance in our domestic economies.

We also agree with Korea on the need to go beyond the built-in agenda of agriculture and services to include negotiations on tariffs and non-tariff barriers affecting trade in industrial goods. This will ensure that the Round is focused on expanding market access, in which all WTO members stand to gain. However, to be beneficial, we need to ensure expeditious results -- which dictates against overburdening the negotiations with issues not yet ripe for new or revised rules.

We realize that agriculture in particular is a sensitive area for Korea. That said, agricultural market access is at the heart of the new Round, and of special interest to those WTO members that have not developed as Korea has in its climb to the status of OECD membership.

Korea has an opportunity to lead in reform and improvement of the WTO itself. Some of the changes contemplated to the organization – for example, opening dispute settlement procedures; ensuring a greater role for civil society in debates and meetings; earlier releasing of documents and decisions, and coordinating policies between the WTO and international financial institutions – have strong parallels to issues President Kim is focusing on at home. It would be entirely fitting for Korea to take the lead on them internationally as well.

CONCLUSION

We should not, of course, look too far beyond the challenges of the moment.

Economic recovery in Korea and much of Asia remains fragile; and reform in Korea as elsewhere is still incomplete. Our bilateral trade relationship continues to be tested by a number of limited but still highly contentious issues. And the development of a consensus agenda for the Round – much less completing it – is no easy task.

But when we consider the events of the past years, we should approach the future with confidence and hope. Korea has begun its recovery more quickly and strongly than almost anyone could have predicted. It has used the experience to open an era of reform that has strengthened the Korean economy, and opened prospects for technological advance and more stable growth.

We have used this experience to open a new and stronger relationship, in which our economic ties are premised not only on national interest; but on the responsibilities we share to create a more open, prosperous and sustainable Pacific economy; and on the ideals we share as democracies in a more open, transparent, and free world.

Thank you very much.